

~~SECRET~~

Approved For Release 2003/09/26 : CIA-RDP79-00927A000200130001-7

21

COPY NO. 3493

~~CONFIDENTIAL~~

19 February 1954

CURRENT INTELLIGENCE WEEKLY



DOCUMENT NO. 13
NO CHANGE IN CLASSIFICATION
IS DECLASSIFIED
CLASS. CHANGED TO: TS
NEXT REVIEW DATE:
AUTH: [Signature]
DATE: 7-28-77
REVIEWER: [Signature]

25X1

CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

~~SECRET~~

25X1

~~CONFIDENTIAL~~

OSD & DOS review(s) completed.

THIS MATERIAL CONTAINS INFORMATION AFFECTING THE NATIONAL DEFENSE OF THE UNITED STATES WITHIN THE MEANING OF THE ESPIONAGE LAWS, TITLE 18, USC, SECTIONS 793 AND 794, THE TRANSMISSION OR REVELATION OF WHICH IN ANY MANNER TO AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW.

The Current Intelligence Weekly has been prepared primarily for the internal use of the Central Intelligence Agency. It does not represent a complete coverage of all current situations. Comments and conclusions represent the immediate appraisal of the Office of Current Intelligence.

SUMMARY OF CONTENTS

THE SOVIET WORLD Page 4

SCHEDULED REFUGEE EXCHANGE COMPLICATES KOREAN TRUCE . . Page 6

Neither North nor South Korea is expected to permit more than a few refugees to return home in the exchange scheduled to begin on 1 March.

DIFFICULTIES FACING THE UNITED STATES AT CARACAS . . . Page 7

Discussions at the Inter-American Conference next month are expected to focus on economic policy, Communism, and colonialism. The first promises to present the greatest difficulties for the United States, although the Guatemalan situation may take the spotlight at an early point.

DOMESTIC CONCILIATION AFFECTS NEARLY ENTIRE SOVIET POPULATION Page 10

Nearly every major group in the Soviet population appears to have received some benefits from the domestic program the Malenkov regime has followed during its first year in power. The concessions have been so extensive that any attempt at retreat would probably seriously lower morale.

VULNERABILITY OF SOUTHEAST ASIA TO EXTERNAL COMMUNIST PRESSURE Page 12

The vulnerability of Indochina's neighbors on the Southeast Asia mainland to Communist pressure lies basically in their large Overseas Chinese communities and their disgruntled ethnic minorities.

GREEK LEADERS PROPOSE CUTTING DEFENSE EXPENSES Page 14

Supported by widespread sentiment for lowering defense expenses in the interest of economic rehabilitation, Greek government leaders will probably continue to press for such action.

OSD REVIEW COMPLETED

2

SECRET

25X6

**SPECIAL ARTICLE. THE IMPACT OF THE SOVIET TRADE DRIVE
ON WESTERN EUROPE** Page 18

The current Soviet trade offensive, coinciding with various pressures on the West European countries, seems likely to lead to a substantial expansion of East-West trade and to serious difficulties for the COCOM program to control strategic exports.

SECRET

THE SOVIET WORLD

Top members of the Soviet leadership continued their public appearances in the past week by attending a meeting of agricultural workers of the Russian republic and a Chinese embassy reception to celebrate the fourth anniversary of the signing of the Sino-Soviet friendship treaty.

Malenkov's message to Mao termed the treaty a "solid basis for all-round cooperation." Mao, however, was more specific and used this occasion to remind Malenkov again that Soviet aid has an "extremely important meaning for the acceleration of China's socialism and the healthy growth of the strength of the peace and democratic front headed by the Soviet Union."

Voroshilov presented awards "for long service and irreproachable work" to a large group from the Academy of Sciences, including such a heretofore controversial figure as economist E. S. Varga. Varga has apparently been in some disfavor since 1947, when he suggested that capitalist states could modify the action of Marxian economic laws by political activity. This apparent reinstatement suggests that his views of the capitalist world, which are generally more realistic than those of most Soviet thinkers, may be at least partially accepted by the present regime.

Kazakhstan's serious underfulfillment of its 1953 economic plan is a further indication that former minister of culture P. K. Ponomarenko and Politburo member L. I. Brezhnev were sent to that republic to correct economic deficiencies there.

Official concern over the downward trend in labor productivity, revealed in Moscow's announcement of 1953 plan results, was also reflected in a recent broadcast by the Soviet economist Ruzhnikov. He said that while additions to the labor force accounted for more than half of the 1953 rise in industrial output, 75 percent of the increase planned through 1955 was scheduled to come from increased productivity, and that greater productivity was "absolutely indispensable" if the targets of the Fifth Five-Year Plan were to be met.

The unprecedented administrative reorganization of the Soviet metallurgical industry into a Union Republic Ministry of Ferrous Metallurgy and one of Nonferrous Metallurgy and the creation of a Republic Ministry of Ferrous Metallurgy in the Ukraine appear in large part to be a new approach to basic

~~SECRET~~
economic problems confronting this key Soviet industry. Although political motivations may have played a part, statements by Soviet officials during the past few months made clear that the economic problems are both immediate and long range in nature.

The level of 1953 production of ferrous metals was short of the annual planned goal. Moreover, the metallurgical industry as a whole has been criticized for failure to make full use of existing production facilities and to reduce costs of production sufficiently. Particular responsibility for lags in the general growth of metallurgical production has been attributed to a number of individual enterprises.

These shortcomings are not confined to the metallurgical industry. Because of the bottleneck nature of this industry, however, the government may have decided that reorganization here would, if successful in raising output, also help other industries to improve their performance.

The program for long-range metallurgical expansion stresses a higher degree of regional decentralization through the construction of small metallurgical plants supplied to a growing extent from local resources. Such a program, if successful, would reduce the dependence of many areas of the Soviet Union on the major existing metallurgical centers and relieve the transportation system of the need for long hauls of raw materials and finished products to and from present producing centers.

Decentralization of administration to promote efficiency in production would seem to be a logical approach to the solution of both short and long-range problems in the industry. While the reorganization in the Ukraine, which accounts for some 35 percent of Soviet iron and steel output, will increase the production responsibility of the Republic Ministry, most allocation decisions probably will continue to be made in Moscow. The Republic Ministry may, however, assume the function of obtaining from local resources a larger percentage of input needs and may negotiate the allocation of a larger part of its output to other industries administered by the Ukrainian government.

SCHEDULED REFUGEE EXCHANGE COMPLICATES KOREAN TRUCE

Neither North nor South Korea is expected to permit more than a few refugees to return home even if the exchange program begins as scheduled on 1 March. The entire program is quite likely to be wrecked, however, amid mutual recriminations in the preliminary interchange of rosters on 20 February.

Under the terms of the Korean armistice, eligible repatriates include all civilians forced from their homes by the fighting since 1950, but each side has already charged that the other is holding back qualified persons.

North Korean authorities originally announced that 8,000 southerners wanted to return home. On 14 February, however, Pyongyang radio asserted that no Korean civilians had registered for repatriation, that most civilians had already been returned during 1953, and that Seoul was refusing to repatriate 1,500,000 North Koreans. This suggests that Pyongyang does not intend to return any refugees and will use the occasion merely to release a handful of detained foreigners and possibly to dispatch new espionage agents to the south.

While 15,000 of the 800,000 North Koreans in the south are eligible to return, Seoul says that only 2,000 desire to do so. Government officials, however, have spoken publicly of the return of 200,000 South Koreans from the north, a figure far beyond South Korea's capacity to screen and rehabilitate, even if it is accurate. Since the exchange comes just before South Korea's legislative elections, a breakdown will offer President Rhee a new pretext to discredit the concept that unification can be achieved by negotiation.

While Pyongyang might permit some of the 27 South Korean legislators held since 1950 to return, it would probably prefer to do so at a time offering greater possibilities for political exploitation, such as after Rhee's death. There were some prominent lawmakers, presumably loyal to Pyongyang, who fled northward in 1950, and who, if returned, would be able to stir up neutralist sentiment in the south.

DIFFICULTIES FACING THE UNITED STATES AT CARACAS

Discussions at the Tenth Inter-American Conference which opens in Caracas on 1 March are expected to focus on economic policy, Communism and colonialism. The first, particularly in view of the domestic campaign against coffee prices and the report that Assistant Secretary Cabot had resigned over economic policy, promises to present the greatest difficulties for the United States. The Guatemalan situation, however, may take the spotlight at an early point in the conference. (See page 9 for chart of Organization of American States.)

During January and early February there was evidence of decreased resentment over United States foreign economic policy and increasing hopefulness that Washington would present the conference with basic solutions to hemisphere problems of trade, prices, and loans. The cautious optimism of the Latin Americans apparently stemmed from contact with Senator Capehart's committee during its December tour and from the Randall commission report issued in late January. These events seemed to them to give reassurance that the Milton Eisenhower recommendations for economic aid would be carried out.

The past few weeks, however, have seen a reversal of the trend toward optimism and good will. American attacks on coffee prices have drawn outcries against the "one-sided law of supply and demand" which allegedly favors only the United States and have prompted a rash of official statements on the need for economic cooperation in order to assure hemisphere unity. The coffee affair has also reinforced the strong Latin American belief that there should be a scheme providing "parity" between their raw material products and imported manufactured goods, or at least a plan to stabilize price and purchasing arrangements.

An additional complicating factor is the resignation on 11 February of Assistant Secretary of State Cabot, who in the eyes of the Latin Americans was associated with a hoped-for new policy of positive American assistance for their foreign trade and economic development programs.

There are increasing indications that economic questions may also complicate discussion of a resolution to condemn "intervention by international Communism." The American embassy in Guatemala reports that the Arbenz government may take the

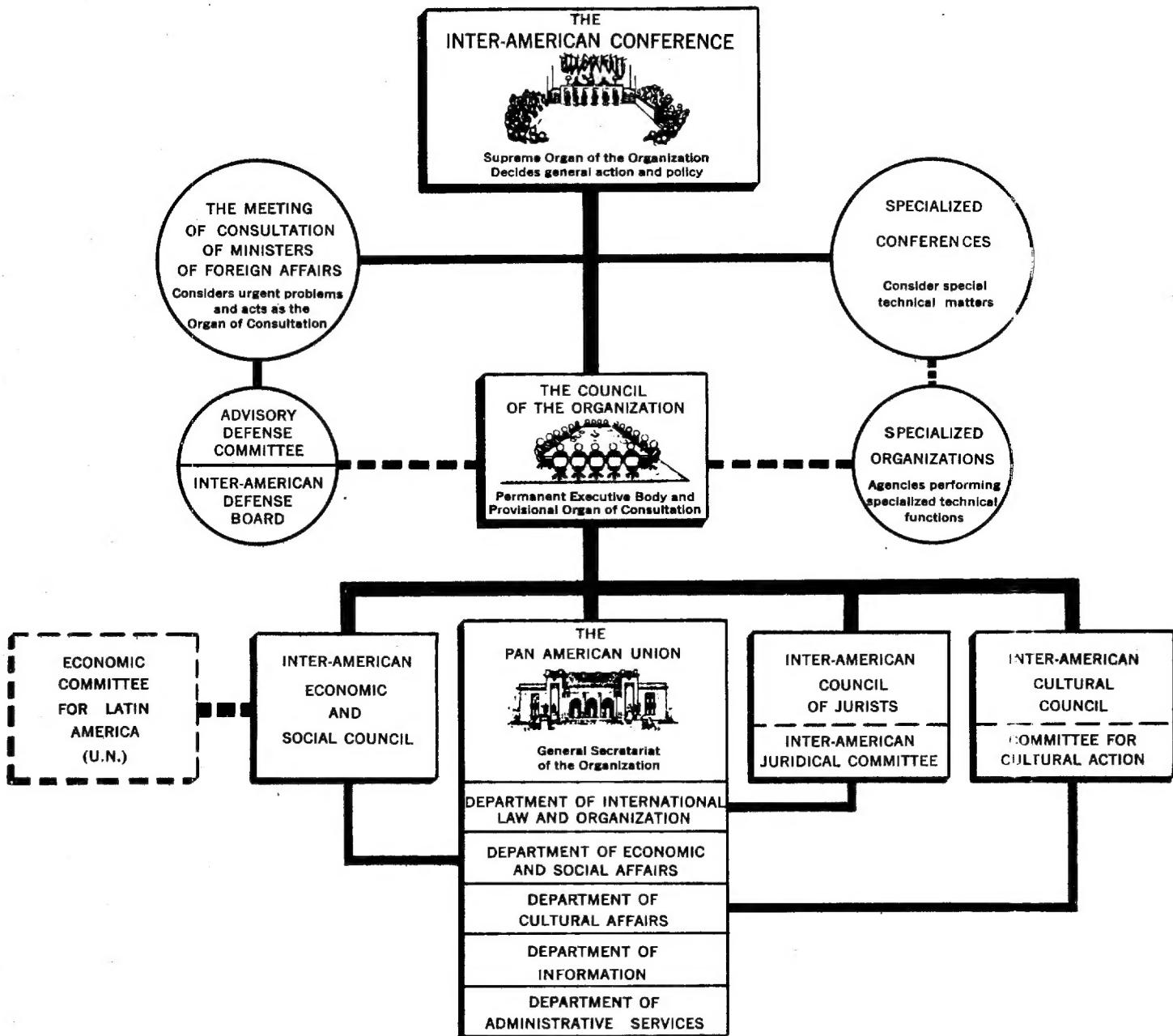
offensive early in the conference and charge that the "interventionist plot" by certain other Latin American governments which Guatemala "exposed" on 29 January was an attempt to protect the United Fruit Company and other "monopolies" against Guatemalan economic reforms. Brazil, Bolivia, Colombia, and El Salvador have already indicated that they would like to discuss the need for a sound economy as the basis for fighting Communist infiltration.

Although most Latin American governments have stated that they will vote for a resolution against Communist "intervention," few of them take any real interest in such a seemingly vague threat and a number actually use local Communists to undermine the non-Communist left. Many of them do not see Guatemala as a beachhead of international Communism, and several major governments during the past week have expressed fear that any anti-Communist resolution, unless carefully worded, might be interpreted as interfering in Latin Americans' free choice of their governments and as condoning the kind of intervention charged by Guatemala.

The colonial issue, already an emotional subject with most Latin Americans, also promises to feature the interventionist theme. Although Argentina's anticolonial stand appears to have moderated somewhat in recent weeks, Brazil and others have recently reiterated that they will insist on a strong rejection of the prerogatives of foreign colonial powers. They now hold that no outside power can be permitted to "intervene" in the hemisphere even if, as in British Guiana last fall, such action is taken in the name of preventing Communist intervention. Most Latin American governments now incline to the position that problems arising from non-hemisphere influence, even those within the European colonies, must be solved by consultation within the OAS and not by unilateral action.

Other agenda items expected to pose lesser problems for the United States include those on human rights, the cultural relations convention and on peaceful relations. The last contains a proposal for an inter-American court, which is favored by a majority of Latin American countries in spite of the known opposition of the United States. The item also calls for a report from the Inter-American Peace Committee which may air the bitter Haya de la Torre asylum dispute between Peru and Colombia.

*DIAGRAM of the Organization of American States as Established
by the Charter Signed at Bogota, April 30, 1948*



40217

DOMESTIC CONCILIATION AFFECTS NEARLY ENTIRE
SOVIET POPULATION

Nearly every major group in the Soviet population appears to have received some benefits from the domestic program the Malenkov regime has followed during its first year in power. The program appears to be more than a by-product of an effort to change overemphasis on heavy industry. The concessions, apparently designed to identify the largest possible segment of the population with the Kremlin's objectives, have been so extensive that any attempted retreat would probably have serious repercussions on morale.

The concessions embodied in the agricultural and consumers goods programs are potentially the most far-reaching made to date. The peasantry will have to be given a fair share of whatever increase may be realized if the stimulus to greater agricultural production is to be effective. The prospect of an increased flow of food products from the countryside would hold a good deal of appeal for urban dwellers, including the bureaucracy and the laboring and professional classes. If there were a substantial increase in real wages such as the 13 percent increase claimed for 1953, the industrial worker should be able to afford greater consumption.

The program, however, with its emphasis on improving the quality of production, appears to be weighted in favor of those segments of the population which command the greatest purchasing power--the upper ranks of the party, state, and military apparatus, and the managerial and professional classes.

The retail price cuts of March 1953 were somewhat larger than in preceding years, and the state loan quota, which amounted in the past to a full month's wages from each subscriber, was reduced by 50 percent in 1953. The so-called voluntary loan payments have long been a source of resentment, and even partial relief is undoubtedly a popular measure.

The amnesty decree of March 1953 freeing nonpolitical prisoners serving terms of less than five years and those convicted for various kinds of official and economic crimes affected an estimated million men and their families. The decree also held out the prospect of a revision of the criminal code to make management offenses such as production deficiencies subject to administrative punishment rather than to criminal prosecution. The economic bureaucracy, thus freed from the constant threat of severe punishment for minor infractions, might be expected to develop greater efficiency and initiative.

The morale of the managerial class has probably been further bolstered by recent moves toward administrative decentralization. The effect of these moves is to give economic bureaucrats at the ministerial level and below greater independence in production planning and in the handling of working capital and credit.

The appointment of Marshals Zhukov and Vasilevsky as deputy ministers of defense and an unusual number of promotions in the top military commands appear to represent an effort to garner support for the regime among the military. The population as a whole, and perhaps the army in particular, might also be expected to derive some satisfaction from the fate of Beria and the ostensible humbling of the MVD. The government's indictment of Beria and his associates included charges of economic obstruction and arbitrary use of police power, and post-trial propaganda stressed the need for closer control over MVD activities and the strengthening of "socialist legality."

Recent evidence of relaxation in the sphere of cultural policy, possibly foreshadowing an easing of the harsh artistic regime imposed by Zhdanov in 1946, suggests that the intelligentsia may also receive some concessions. The more tolerant attitude recently shown toward modern Western music and painting, and recent appeals by Ehrenburg, Khachaturyan, and Shostakovich for more innovation and less bureaucratic interference in the creative activity of Soviet writers and composers, are signs of such a development.

It would appear, then, that concessions have been made or promised to every major segment of the population, with the exception of the MVD. Whether liberalization is to be carried further or suspended will undoubtedly depend on the success or failure of the new economic program.

The experience of the immediate postwar period, when cancellation of agricultural concessions brought widespread disaffection, demonstrated, however, that the hopes of the Soviet population, once aroused, are a political factor to be reckoned with. A reversal of policy at this juncture would most certainly deepen the apathy and cynicism which have so long acted as a brake on Soviet economic development.

19 Feb 54

VULNERABILITY OF SOUTHEAST ASIA TO
EXTERNAL COMMUNIST PRESSURE

The vulnerability of Indochina's neighbors on the Southeast Asia mainland to external Communist pressure lies basically in their large Overseas Chinese communities and their disgruntled ethnic minorities. They are also weakened by their precarious economic situation and by a general conviction that it is futile to oppose superior force.

The 12,000,000 unassimilated and economically powerful Chinese in Southeast Asia constitute one of the greatest Communist assets in the area, and Peiping has unceasingly sought to win their allegiance. A general sense of nationalism and dissatisfaction with local discrimination led a majority of them to welcome the Communist regime in 1949. The brutalities of the land reform and extortion campaigns hurt the Communists' popularity, but the annual flow of approximately 10,000 Chinese students to China bespeaks the success of their efforts.

In Malaya, particularly, the orientation of the Overseas Chinese is of primary importance. They comprise 38 percent of the total population of the Federation and 80 percent of that of Singapore. The Communist terrorist campaign is almost exclusively the work of Malaya-born Chinese.

Grievances of disgruntled ethnic minorities offer the Communists another means to apply pressure, particularly in Thailand and Burma. In northeastern Thailand, for instance, some 60,000 Vietnamese refugees are concentrated on the Thai-Laotian border. Resentful of the treatment accorded them in Thailand, they actively support the Viet Minh.

In Burma, dissatisfaction with the central government is widespread among minorities, ranging from passive acquiescence among the Shans to open rebellion by the Karens. Chinese Communist agents are active in north Burma, and there are indications that some elements of the ethnic groups are increasingly receptive to Communism. The autonomous ethnic states which the Chinese Communists have established adjacent to the Burmese and Thai borders are potential bases for a more vigorous exploitation of the racial animosities toward Rangoon and Bangkok.

The entire area is economically vulnerable because it is heavily dependent on world markets for disposing of its rice, tin and rubber. The fall in prices for these commodities during

SECRET

~~SECRET~~

the past several months has caused deep concern, and the various governments are seeking means of avoiding serious economic distress. Burma and Indonesia, encouraged to do so by the Communists, have already turned to the Soviet Orbit in the hope of developing new markets.

Southeast Asia's greatest weakness, however, is an acute sense of helplessness before the power of Communist China. This feeling of futility is responsible for much of the existing neutralist sentiment. Even Thai leaders, who strongly support the West, have indicated that their anti-Communist fervor at any given time is directly dependent on their estimate of American intentions to defend their independence. At the present time, in addition, they perhaps depend too heavily on Indochina as a buffer against Communist aggression.

Premier Phibun of Thailand and Sir Gerald Templer, the British high commissioner in Malaya, have frankly stated that the loss of Indochina would gravely undermine their efforts to maintain internal security. Templer believes that such an eventuality would mean a resurgence of terrorism and would destroy any possibility of gaining the cooperation of the Overseas Chinese community.

The Thai are particularly apprehensive, because the Communist movement in their country is so thoroughly dominated by Chinese. Their problem is further complicated by the presence of the unfriendly Vietnamese minority in their midst. The Thai government would be hard pressed to combat an "internal" Communist uprising supported from Indochina.

Burma and Thailand are vulnerable to any joint Chinese-Viet Minh effort to subvert their peripheral areas. Conceivably, the Chinese could concentrate on north Burma while the Viet Minh exploited racial kinships in northeastern Thailand, which also happens to be the poorest part of the country and traditionally the center of antigovernment sentiment. Dissident Thai leaders have occasionally been reported operating with the Viet Minh in Laos.

All the vulnerabilities of the mainland are also present in nearby Indonesia which, in addition, already has a cabinet which is influenced by the Communists. Efforts of the moderate political parties and of conservatives in the army to combine against this influence have made little progress.

~~SECRET~~~~SECRET~~

GREEK LEADERS PROPOSE CUTTING DEFENSE EXPENSES

Greek officials, including the prime minister, have recently shown considerable interest in reducing defense expenses by cutting the armed forces. Although the government may be expected to accept temporarily American arguments that any substantial reduction of the armed forces would endanger the Greek contribution to NATO, sentiment for defense cuts in the interest of economic rehabilitation is widespread, and Greek leaders will probably continue to press for NATO approval of such action.

The most recent effort was made on 26 January when Prime Minister Papagos told General Gruenthaler at SHAPE that Greece could not continue to allocate about 30 percent of its budget to defense. He maintained that a reduction in active forces was now possible without danger since the recent Greek-Yugoslav-Turkish pact improved Greek defense capabilities and provided for advance warning of any aggression. He agreed, however, to postpone any move to reduce the armed forces until after the problem had been studied by Greek and American military aid officials.

Current Greek interest in reducing defense costs cannot, as in the past, be attributed directly to stimuli such as Field Marshal Montgomery's recommendations in September 1953 or the signature, one month later, of the Greek-American base facilities agreement. The present attitude stems in part from the high cost of defense.

The present defense allocation, while sufficient to maintain the Greek contribution in the Eastern Mediterranean at present levels, does not provide for programmed NATO and national requirements which continue to depend almost totally on American aid. Most Greeks are not aware of the extent of the American contribution, and many resent Washington's pressure for the defense expenditures necessary to meet the government's commitments.

Equally important in determining the Greek attitude is a growing belief that the Soviet bloc is not planning a general war in the immediate future. This impression has been strengthened during the last year by the improvement in Greek diplomatic and commercial relations with the bloc. The Soviet ambassador in Athens has been particularly active in promoting friendship. The Greek government, because of its desire to secure credit for the considerable expansion of markets which would result from the fulfillment of the new trade agreements, has also given wide publicity to the improvement in relations, and thus has materially assisted Communist arguments that a relaxation of East-West tensions is possible.

SECRET

The government's progress toward economic rehabilitation since coming to office in 1952 has aroused popular faith in the country's economic potential. The desire to subordinate the defense effort has been strengthened as a result of the belief that economic progress is being made. By mid-December 1953 the government's defense outlay had become the most vulnerable point in its program; opposition attacks on this point have recently subjected Papagos to new and stronger pressure.

Meanwhile, support for cutting defense costs has developed within the government itself. While Papagos and other leaders recognize the importance of Greek participation in NATO, they also realize that their continuation in power depends largely on the success of the economic reforms which are endangered by the high defense outlay.

Until Greek leaders become convinced that a greater defense effort is necessary they are unlikely to agree to American arguments that a cut in defense could endanger Greek capabilities as a NATO member. Internal political pressures will probably force the government to press again for American approval of such a reduction.

Next 1 Page(s) In Document Exempt

19 Feb 54

SPECIAL ARTICLE

THE IMPACT OF THE SOVIET TRADE DRIVE ON WESTERN EUROPE

The new Soviet trade offensive in Western Europe coincides with various political and economic pressures which make the area especially receptive to Soviet trade offers. The new drive seems likely to result in a substantial expansion of East-West trade and in new difficulties for the COCOM program to control strategic exports.

Since mid-1953 the Soviet Union has negotiated trade agreements with France, Italy, Belgium, the Netherlands, Denmark, Norway, Sweden, and Finland and undertaken practical discussions for expanded trade with Britain. The USSR negotiated in a much more businesslike manner than in the past, with a minimum of maneuvering for propaganda effect and with much evidence of serious interest in trade for trade's sake. It offered more favorable prices and in some cases commodities more in line with Western European requirements. Of the few deliveries already made under the new agreements, some have been ahead of schedule, suggesting that the USSR is anxious to fulfill its commitments.

The contrast with the Soviet attitude at the Moscow Economic Conference of April 1952 has been particularly marked. On that occasion the USSR held out prospects for up to \$2.5 billion worth of orders from Western Europe, yet the resulting trade agreements were small. The Soviet Union's actual trade with all non-Orbit countries fell to the unusually low figure of \$290,000,000 for the first half of 1953. Total exchanges envisaged under the eight Western European pacts referred to above exceed \$500,000,000 and are approximately 50 percent greater than the amounts called for in agreements the previous year. These totals do not include the growing trade with Britain, which is the USSR's principal trading partner outside the Orbit.

These new agreements provide economic advantages for Western European countries. In France, for example, Soviet purchases of textiles, heavy industrial equipment, and small ships under the July 1953 agreement, as well as recent spot purchases of meat, have been hailed as a partial solution to problems of depressed industrial production and of prices not competitive in the West.

~~SECRET~~

SECRET

Italy, under the October 1953 trade agreement with the USSR, is to sell numerous items not marketable elsewhere, including textile and food-processing machinery, thermoelectric power equipment, ships, textiles, and citrus fruits. In return, the Italians are to receive 350,000 tons of crude oil, 125,000 tons of wheat, 25,000 tons of chrome ore, 20,000 tons of manganese ore, as well as increased quantities of coal, lumber, and other items needed by the Italian economy.

Various recent developments, moreover, give these Soviet offers an appeal much greater than the economic facts justify. Although trade with Western Europe normally accounts for some 70 percent of the USSR's non-Orbit foreign trade, for Western European countries, exchanges with the USSR since World War II have represented less than five percent. However, the return of a buyers' market in various fields from textiles to shipbuilding and the increasing pressure of West German and Japanese competition has encouraged a widespread belief that a large and enduring market exists in the USSR.

Furthermore, with direct American assistance declining, some Western European countries have fewer dollars freely available and are accordingly attracted by the possibility of obtaining Soviet raw materials like petroleum and nonferrous ores. In addition, the apprehension in Western Europe of a severe recession in the United States motivates policy makers to reduce their dependence on this country as a trading partner. Fear that the American government may not succeed in liberalizing its trade policies is a further motive for seeking new markets for exports.

There is also widespread hope that the Soviet global strategy calls for an indefinite postponement of a shooting war and hence that the free world can afford to give ordinary trading considerations priority over economic warfare. The conviction is growing in Western Europe that increased trade with the USSR is in itself a means of further reducing East-West tensions. Prime Minister Churchill, for example, remarked at Bermuda that trade would be an excellent way of "infiltrating" the Soviet Union.

The impact of the current Soviet trade offensive and of Western European response is reflected particularly in the shaky condition of the COCOM export control program. In the past, the United States and Britain have supported and strengthened this program by going into the semiannual policy meetings of the COCOM Consultative Group with an

SECRET

~~SECRET~~ **CONFIDENTIAL**

agreed position. The meeting which had been scheduled for early November 1953, however, was repeatedly deferred because of Britain's insistence on a revision of COCOM rules in order to cut drastically the number of controlled items and to allow increased shipments of goods subject to quantitative control. An impasse was reached on ship construction for the Orbit, for example, when Britain, endeavoring to assure capacity operations of its yards during the next two or three years, demanded a "replacement figure" of 150,000 tons instead of the 68,000 tons the United States had reluctantly agreed to.

There is little prospect that Britain will reach an agreement with the United States on the position to be adopted at the Consultative Group meeting now scheduled for March or early April, and there is ample evidence that the Continental countries will support the British demand for relaxed controls. Italian requests for exceptions to embargoes have increased, and in preliminary COCOM consideration of proposed trade agreements with the Soviet Union, there has been growing pressure, particularly from the French and Italians, for the inclusion of more controlled items.

Strong pressure can therefore be expected for radical revision of the entire COCOM control program in the forthcoming meeting. Though bans on atomic energy materials and munitions will be retained, there is growing demand from the European countries for narrowing the embargoes on industrial equipment merely to those items embodying highly specialized "know-how," and for greatly relaxing all quantitative control.

There is, however, a possibility that the present Soviet trade offensive may eventually defeat itself in Western Europe by the excessive claims made on its behalf. The chief of the Soviet Chamber of Commerce asserted on 7 February that the Union's trade with the non-Communist world could be expanded within two or three years to a level of seven to ten billion dollars annually. Achievement of the latter figure is most unlikely because Moscow's new economic policy has expanded internal requirements for traditional Soviet exports like grain and timber, and it is doubtful whether other exports to Western Europe would be substituted in sufficient quantity.

Failure to approach the levels now voiced by Soviet spokesmen may serve to disabuse Western Europeans of their present illusions as to the magnitude of profitable trade possibilities with the Soviet Union.

CONFIDENTIAL~~SECRET~~